

3.2 EXCHANGE RATES

II. TERMS & OBJECTIVES: FIXED (MANAGED) EXCHANGE RATES (SL/HL)

- exchange rate
- foreign exchange market
- excess supply
- demand curve
- excess demand
- supply curve
- foreign reserves
- quota
- tariffs
- investment
- trade barriers
- Contractionary Fiscal Policy
- Current Account
- Fiscal Policy
- Monetary Policy
- Stakeholders
- Economic Growth
- Unemployment
- Imported Inflation
- Protectionism
- Forces of Demand and Supply
- Price Inelastic

1. Describe a fixed exchange rate system involving commitment to a single fixed rate.
2. Distinguish between a devaluation of a currency and a revaluation of a currency.
3. Explain, using a diagram, how a fixed exchange rate is maintained.
4. Explain how a managed exchange rate operates, with reference to the fact that there is a periodic government intervention to influence the value of an exchange rate.
5. Examine the possible consequences of overvalued and undervalued currencies.
6. Compare and contrast a fixed exchange rate system with a floating exchange rate system, with reference to factors including the degree of certainty for stakeholders, ease of adjustment, the role of international reserves in the form of foreign currencies, and flexibility offered to policy makers.